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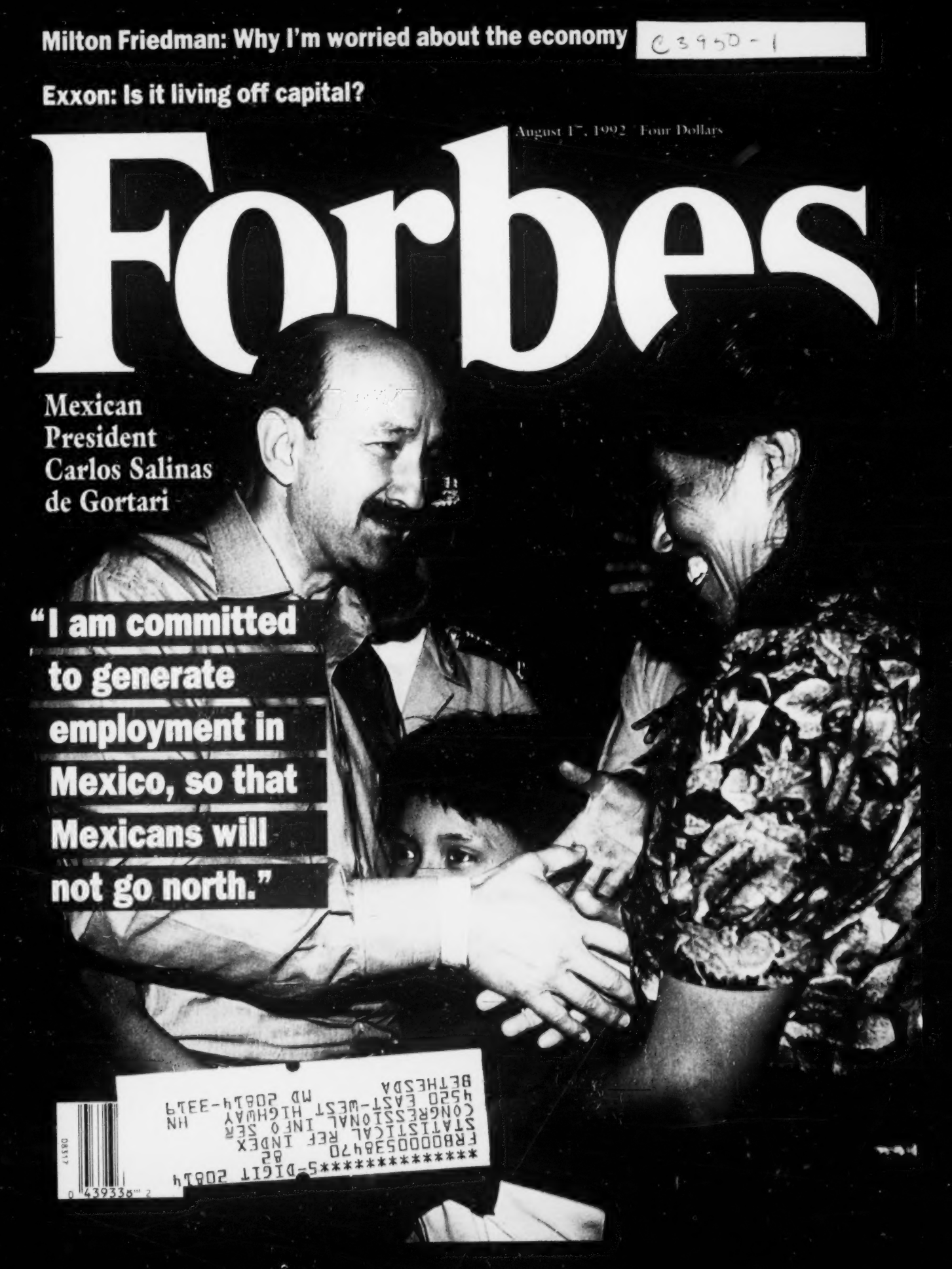
Exxon: Is it living off capital?

August 17, 1992 Four Dollars

Forbes

Mexican President Carlos Salinas de Gortari



"I am committed to generate employment in Mexico, so that Mexicans will not go north."

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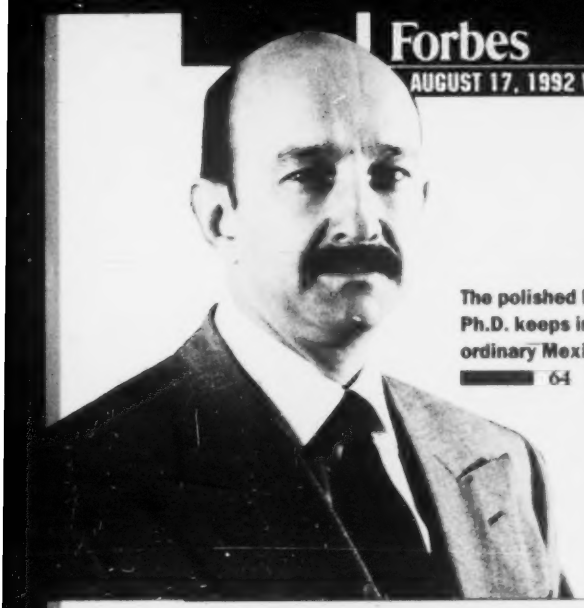

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Cover photo by Sergio Dorantes

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Reregulating cable will increase costs

IN AN ELECTION YEAR it is perhaps inevitable that even many Republicans in Congress now support reregulating the 11,000 operators in the U.S. cable television industry. It's a popular issue that has been pushed by, among others, the liberal Ralph Nader (who has interests in over-the-air broadcast television—see FORBES, Sept. 17, 1990). Cable operators have become tarred as arrogant monopolists who price-gouge and give lousy service.

Unlikely as it may sound, President Bush more or less invited the Republicans to vote for the current bill that would reregulate the cable industry. In late July Bush apparently hinted that he would veto any reregulation of cable TV—unless Capitol Hill passed the bill by a veto-proof margin. Congress seems to have taken the hint: Both houses passed similar reregulation bills by very wide margins.

The eventual bill, expected to emerge in mid-August, will, if anything, add to cable systems' costs. Ironically, this will tend to put rates to consumers up rather than down.

Reregulation will also put the Federal Communications Commission in a bind. The commission is trying to put downward pressure on cable prices and ease regulation on the local telephone companies by allowing the telcos to offer video services over the telephone lines, in competition with cable. In mid-July the FCC allowed local phone companies to offer their wires to anyone wanting to use them to distribute TV or even data to consumers; the telcos would be able to own 5% of any such ventures.

Increased competition will do the job much better

ALL THIS POLITICKING obscures more important fundamentals. Cable TV is now a $23-billion-a-year industry; 87% of those revenues come from subscriber fees. That's close to the size of broadcast TV (annual revenues $26 billion). The justification a decade ago for the government to protect the cable industry by regulating the telephone companies was that the cable systems were tiny. But today cable can certainly stand on its own feet.

Over-the-air broadcasters have, of course, been pushing hard to reregulate cable, which has siphoned off tens of millions of their viewers. But the broadcasters were surprised by the strong support received by a last-minute addition to the House version of the bill that would allow other competing systems—such as wireless cable and direct broadcast satellite services—more access to the cable operators' programming. This would hurt one group of the broadcasters' competitors but help others.

Meanwhile, the local phone companies' attention was diverted by another turn-back-the-clock bill sponsored by Jack Brooks (D-Tex.). This bill would set in concrete the three main restrictions imposed under the consent decree that broke up the old AT&T. These prohibit the entry by the seven Baby Bells into product manufacturing, the long-distance business and information services, whether video or data. The Brooks bill would sentence the U.S. to a third-rate telecommunications system.

The best protection for consumers would in any case be increased competition, which would inhibit cable system operators from arbitrarily hiking fees. Evidence? The sample group is tiny, but there are 65 cable markets in the U.S. where there is direct competition between two or more providers. In these places basic cable service costs an average of $11 a month, versus a $17-a-month average for the rest of the country where monopoly service is the norm.

Such arguments will not, of course, deter politicians pandering to voters.

Cable TV, now a sizable $23-billion-a-year industry, is dominated by some large corporations more than capable of competing with the local telephone companies.

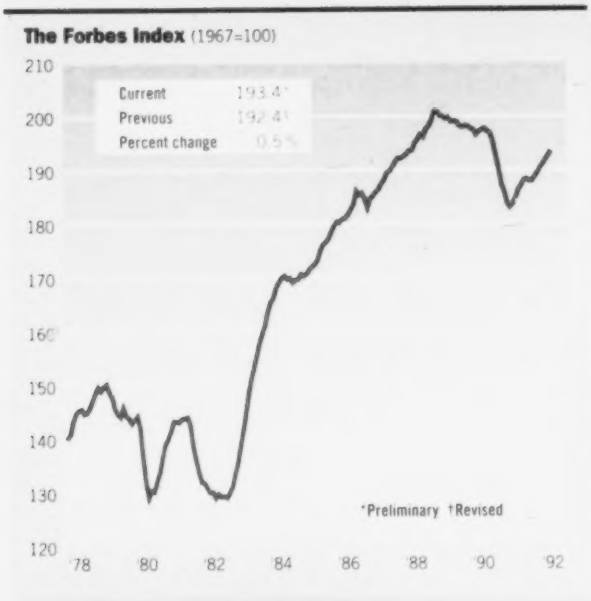
Company	Price recent	Price 52-week high	Price 52-week low	Latest 12-mo EPS	Sales ($mil)	Market value ($mil)
Adelphia Communications	19⅜	21¾	9½	$-8.80	$277	$276
Cablevision Systems	30	36	22¼	-10.31	603	742
Century Communications	9⅜	12¼	6⅜	-0.84	277	879
Comcast	17½	18⅝	12½	-1.22	721	2,415
Jones Intercable	12¼	14	7¾	-0.75	99	158
Tele-Communications	20¾	20¾	12¾	-0.26	3,827	8,686
Time Warner*	108⅜	112¼	77¾	-7.83	12,021	10,637
Viacom*	32	38½	26½	-0.10	1,712	4,103

*Cable is less than 40% of total business.

Sources: Value Line via Lotus One Source; National Cable Television Association.

THE FORBES INDEX

BY TIMOTHY DODMAN



A popular assumption is that the economy has taken another fall, but the preliminary Forbes Index for June looks rather promising. For example, there were 120,300 housing starts, a 16% increase over the comparable 1991 figure. New orders for durable goods rebounded 2.3% in June after May's 2.2% decline.

As for the current high unemployment rate, keep in mind that employment is a classic lagging indicator. In an economic recovery it takes time for employers to gain the confidence to add to their payrolls.

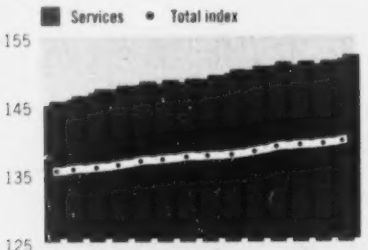
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1991[1]	Ward's Automotive	1.7%
Index of leading indicators May vs Apr	Dept of Commerce	0.6%
Trade balance 12 months ended May 1992	Dept of Commerce	-$68 bil
All-commodity producer price index June vs May[2]	Dept of Labor	0.6%
GDP 1st quarter vs 4th—annualized growth	Dept of Commerce	2.7%
M2 (3-month change)—annualized growth[3]	Federal Reserve	-0.7%

[1] U.S.-based manufacturers, excludes imports, as of 7/10/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

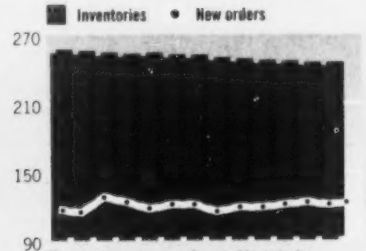
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

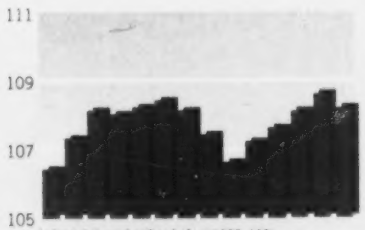
To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

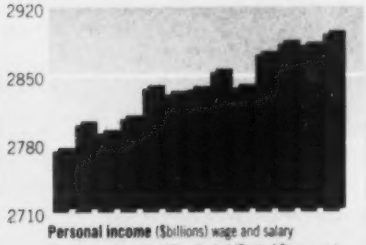


Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



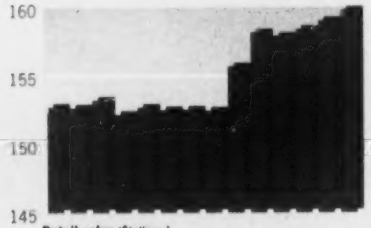
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

M J J A S O N D J F M A M J M J J A S O N D J F M A M J M J J A S O N D J F M A M J

Tired of having his father say no to his ideas, Joel Dorfman took over the family company. What happened?

Father doesn't know best

By Toddi Gutner

Thorn Apple Valley's Joel and Henry Dorfman
"We are through just surviving."

AN ENGRAVED marble plaque in Thorn Apple Valley Inc.'s corporate conference room reads: "We are through just surviving." The hanging of the plaque proved to be an auspicious event: Soon after, Thorn Apple Valley's stock began an ascent that lifted it from 3 a share to 44, before it settled back to a recent 35½.

Henry Dorfman, the founder, is a survivor, and not just in business. Born in Poland, he and his father survived the Holocaust by jumping off the train bound for Treblinka. For three years the two hid in tunnels in central Poland. After the war Henry Dorfman found work as a butcher, selling meat to U.S. government officials living in Germany.

"I come from a long line of butchers," Dorfman says with a laugh in his broken English. "A knife to me is like a fiddle to a musician."

Dorfman, all 5 feet of him, immigrated to Detroit in 1949, and opened—what else?—a butcher shop. Two years later he bought a small hog slaughtering facility for $40,000, $5,000 in cash, the rest in a purchase money note. It took him just 18 months to repay the note and start acquiring other small slaughterhouses and meat processing plants in the midwestern and eastern U.S. By 1971 his company, then called Fredrick & Herrud, went public; his family retained 70% of the shares.

Henry Dorfman ran his business by intuition and instinct—damn the organizational charts! His strategy was simple: Buy small regional competitors that had achieved strong brand awareness and consolidate their production into his existing plants. Colonial was a strong regional hot dog brand in Massachusetts. Dorfman continued the brand name but closed the old, inefficient plant and moved production to his Michigan and North Carolina plants.

Old-timers tell stories of Dorfman hoisting his diminutive frame onto a table at meetings with protesting workers. His blue eyes flashing and partially formed English words spilling from his mouth, he would shout down the burliest union men. To this day Thorn Apple Valley remains an open shop.

His son, Joel, didn't get the hardening his father got, but he wasn't spoiled either. When he was 10, he began working for his father on weekends and during summers, stocking inventory, trading hogs—and, when he got big enough, slaughtering them. Working by day, he earned a law degree at night. "Being the boss' son," he says, "I was sensitive about bringing skills to the company that my father didn't have."

One skill his father lacked was the ability to convince Wall Street that

Undervalued still?

Company	Recent price	Latest 12-month EPS	P/E	Yield	Sales ($mil)	Market value ($mil)
Thorn Apple Valley	35½	$4.23	8.4	0.0%	$740	$137
ConAgra	27⅛	1.50	18.1	2.0	19,505	6,288
George Hormel	21	1.13	18.6	1.7	2,836	1,607
IBP	18⅜	1.12	16.4	1.1	10,388	870
Smithfield Foods	14½	1.37	10 6	0.0	1,072	219

Source: Value Line via Lotus One Source

Despite the rapid rise of Thorn Apple Valley's stock last year, Wall Street still values it less than its major competitors' stock.

Thorn Apple had any stability. It would show earnings of $7 million one year and lose $5 million in another, depending on the hog cycle.

Joel Dorfman knew that he would never get the kind of price he wanted on his stock so long as the earnings were so unpredictable. The stock was at 3 in 1987, versus its IPO price of 16. He saw a way out: He proposed tightening management structure, designing a marketing plan and setting up a central distribution warehouse in Michigan.

But dad said no. He didn't want to let go of the company he had founded. Joel Dorfman suggested taking the company private in a leveraged buyout. Henry couldn't see taking on the necessary debt, so he again said no. Thorn's big competitor, Smithfield Foods, Inc. (FORBES, *Feb. 3*), offered $10 per share for the company. This time both Dorfmans said no.

But Joel was getting fed up. Dad knew it. In 1988 he reluctantly stepped aside. Joel took over and adopted a new national sales and marketing plan that emphasized high-margin, premium branded products. Responding to industry trends toward leaner products, he increased the use of poultry, especially turkey, in processed meat, and expanded the product line. Drawing on his knowledge of the hog kill, Dorfman redesigned Thorn Apple Valley's hog slaughtering facilities in Detroit and Utah to give each employee more room and time to work. Production yields, the amount of salable meat removed from the hog, increased from 56% in 1989 to a recent 59%. Every 1% improvement in yield increases Thorn Apple Valley's revenues by $6 million.

Today old Henry Dorfman doesn't regret stepping aside. In fiscal 1991 Thorn Apple Valley earned over $19 million on revenues of $817 million—$4.43 a share. In 1992 earnings gained 8%, although revenues fell 9%. While the stock is up more than tenfold in the three years since he took over, it rankles Joel Dorfman that his P/E lags so far behind those of competitors *(see table, p. 78)*. Dad, however, isn't taking any chances. Last December the elder Dorfman cashed in 500,000 Thorn Apple Valley shares at around $33 a share. ■

Here's what can happen to nice investors who think they are safe just because a Big Six accounting firm is involved.

Reach for the sky!

By Richard L. Stern

Lee Sutliffe and girlfriend Carol Zandlo

They're smiling, but the bondholders are not.

In 1987 the Illinois Department of Public Health reported shocking conditions at some of the nursing homes owned and operated by First Humanics Corp. Among other things, inspectors found untended elderly patients tied to wheelchairs for hours at a time. Daily food budgets at some of the homes were cut to as low as $2.15 per day per patient.

In the end, First Humanics didn't treat its public investors any better. Starting in May 1989, First Humanics stopped making interest payments on the 21 tax-exempt revenue bonds it had sold separately, many of them to unsuspecting amateurs looking for high yield, from 1984 to 1987.

First Humanics had used the money to buy 17 nursing homes and a retirement center in Illinois and 3 nursing homes in Indiana, Michigan and Pennsylvania. In September 1989 First Humanics filed for Chapter 11 bankruptcy protection.

Badly burned were about 4,000 bondholders who wish they had never heard of Lee Sutliffe, the promoter behind First Humanics and the man to whom they had entrusted more than $82 million.

Of the $82 million raised, Sutliffe spent only $54 million to purchase nursing homes. What happened to the other $28 million?

Quite a bit of it was spent sprucing

The drop in interest rates is helping banks produce healthy earnings gains. They're paying a lot less for their deposits but holding the line on rates they charge for retail loans. Bank stocks are hot: While the Barra All-US total return index shows a 1.4% decline through June, the S&P index of bank stocks is up 18%.

Alex. Brown & Sons banking analyst John Heffern likes banks where profitability is due to more than just lower interest rates and a recovering economy. One Heffern pick is KeyCorp. With $23.1 billion in assets, this upstate New York bank is now expanding thousands of miles from home in the growing Pacific Northwest. For similar reasons Heffern likes Charlotte, N.C.-based First Union, which recently made small acquisitions in Florida and South Carolina. Heffern says these additions complement the larger purchases that First Union made in this area in the 1980s.

Special focus

The recent weakness in many international stock markets has made these stocks look cheaper. All of them currently sell for less than the average price/earnings multiple of their respective markets. And the international edition of the Institutional Brokers Estimate System expects 1992 earnings to rise at least 10% for each of these companies.

Bargains abroad

Company/Country	'92 Est P/E
Peugeot/France	6
Philips/Neth	8
Eurafrance/France	8
Worms & Cie/France	9
Fisons/UK	9
CGIP/France	9
Union Assurances/France	9
Akzo/Neth	9
Oce-Van Der Grinten/Neth	10
Provident Finl/UK	11

Sources: Morgan Stanley; IBES.

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-0.3%	8.3%	-4.3%
S&P/Barra Growth index[1]	-0.7	11.1	-5.6
S&P/Barra Value index[2]	-0.2	11.5	-1.4
Dow Jones industrials	-1.0	10.4	-3.6
S&P 500	-0.5	8.2	-2.1
NYSE	-0.4	8.6	-2.2
Nasdaq	0.1	15.3	-12.4
Amex	0.2	4.8	-8.2
EAFE[3]	-4.3	-8.2	-28.8
CRB index[4,5]	-0.4	-2.0	-24.7
Gold[5]	2.8	-1.7	-28.6
Yen[5]	0.9	-8.8	-22.7
Oil[5]	3.0	2.8	-46.4

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Nicolet Instrument	20 1/4	74%	$0.82	Stac Electronics	5 1/4	-45%	$0.51
Hauser Chemical Research	15 5/8	36	0.48	Advanced Technology Labs	16 3/4	-38	1.09
Intelligent Electronics	10 1/8	33	0.64	Spartan Motors	14	-35	1.19
Quadrex	13 1/8	30	0.20	Symantec	20 3/4	-32	1.32
Preferred Health Care	12 1/8	29	0.44	Providential Corp	10 1/4	-26	0.88

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Containers	8.4%	21.6%	Railroads	-7.6%	-6.2%
Oilfield services	7.3	1.9	Electric utilities	-7.2	-8.0
Household products	6.9	3.4	Aluminum	-6.6	-7.3
Life insurance	6.4	5.2	Thrifts	-5.9	-3.0
Photographic, optical	4.0	-11.4	Gas utilities	-5.4	-2.0

Note: Data for period ending 7/23/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences, including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

BY STEVE KICHEN

Who made the most money?

Investment	Value of $10,000 invested 6/30/82[1]	Change last quarter
S&P 500	$54,278	2.0%
Wilshire Index	50,033	-0.1
Institutional equity account[2]	44,192	-0.3
Institutional balanced account[2]	39,005	1.8
Lehman Govt & Corp	34,766	4.1
Institutional fixed income account[2]	32,974	4.2
91-day T bills	20,498	1.1

Segment performance and cash flow

Segment	Most recent quarter: median total return	Most recent quarter: shift in institutional holdings
Equity	-0.3%	-0.1%
Fixed income	4.3	-1.9
Cash equivalents	1.0	4.2
Convertibles	2.5	-0.3
Other[3]	1.5	-0.1
Total	3.2	-0.2

HERE'S ANOTHER REMINDER that the average pension fund manager isn't worth his keep. A $10,000 hypothetical investment made in the S&P 500 ten years ago would now be worth $54,000, with dividends reinvested. The same amount put into an equity portfolio of a pension manager with results at the median grew to only $44,000. That's before management fees, moreover.

What did the institutional stock pickers do wrong? One thing is that, in their struggle to beat the averages, they traded a lot. That ran up both commissions and less visible transaction costs, namely, bid/asked spreads raked off by marketmakers. The other drag was their cash positions.

George Wolfe, a vice president at Wilshire Associates, which does data processing for the banking industry's Trust Universe Comparison Service, finds a third cause for underperformance. He points out that a manager hired to invest in growth stocks has to confine his picks to this segment. Even if the market seems too frothy, this manager cannot dump biotechnology or computer shares and buy defensive value stocks like food processors or utilities.

Wolfe says that only 23% of pension managers consider themselves value stock managers. But these individuals did fairly well: The median return for value management was 2.7% last quarter. But managers with a growth stock mandate took a drubbing. The median growth manager posted a 2.6% loss, while managers of small-cap growth stocks were off 8.4%.

What the institutions bought and sold

Big stocks[4]

Stock bought	Quarter total return	P/E	Stock sold	Quarter total return	P/E
Bruno's	-16.6%	18	First of America Bank	8.6%	9
Chrysler	19.0	NM	Kaufman	-23.2	27
Cummins Engine	9.0	NM	Intl Specialty Products	11.0	20
Duracell International	0.0	24	KU Energy	9.3	13
Enron Oil & Gas	20.3	30	LG&E Energy	6.0	14
Federated Dept Stores	-10.5	NM	Premark International	-24.1	10
Hospital Corp of America	0.0	NM	Silicon Graphics	-18.8	21
Marion Merrell Dow	-2.6	15	Society Corp	7.3	11
PolyGram NV	19.7	19	Sonoco Products	5.2	18
RJR Nabisco Holdings	-7.9	22	Super Valu Stores	-5.7	9
Santa Fe Pacific	2.1	20	Synergen	4.2	NM
Union Texas Petroleum	-7.7	6	Western Resources	4.8	14

Secondary stocks[5]

Stock bought	Quarter total return	P/E	Stock sold	Quarter total return	P/E
Allied Waste Industries	-22.2%	NM	American Superconductor	-5.6%	NM
Bel Fuse	38.1	NM	Exabyte Technologies	-11.6	NM
CellPro	-4.7	NM	Esco Electron	-13.9	NM
Douglas & Lomason	-32.0	6	Ezcorp	-36.1	50
Excalibur Technologies	-19.0	NM	Image Entertainment	-29.8	NM
Greyhound Lines	-28.2	NM	Irwin Financial	4.7	10
National Media	70.0	NM	Piper Jaffray Cos	-27.5	6
Penn Treaty American	17.0	7	Raymond Corp	21.4	NM
Valley Systems	12.5	26	Regeneron Pharmaceuticals	-26.2	NM
Waxman Industries	-35.3	NM	Sam & Libby	-55.0	7
Zebra Technologies	0.0	22	Sulcus Computer	-58.2	19
Zoom Telephonics	-11.3	27	Teknekron Communications	-51.7	5

[1]Total return. [2]Includes cash. [3]Real estate, foreign investments, venture capital, guaranteed income contracts. [4]Stocks with $1 billion or more in market capitalization at start of quarter. [5]Stocks with market capitalization between $40 million and $200 million at start of quarter. NM: Not meaningful.

Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 6/30/92. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.

The cyclicals have had their run for now. It's time to seek shelter in defensive stocks and cash.

Don't follow the leader

BY CHARLES E. BABIN

Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

IF STOCK MARKETS had personalities, this year's market would be diagnosed schizophrenic. The Dow Jones industrial average appreciated 4.7% during the first six months of the year and established an alltime record close of 3413.21 on June 1. But the overall stock market isn't doing nearly as well. Measured by the S&P 500 stock index, the market declined 2.2% in the first six months. Even that understates the extent of the bloodletting on Wall Street. Robert J. Farrell, Merrill Lynch's chief market analyst, recently told a reporter that 45% of the 5,100 stocks Merrill tracks dropped 30% or more from the highs they made in the first quarter to their lows in the second quarter.

What's going on? In essence, the cyclical stocks—which heavily influence the Dow—have been responding to indications that the recession bottomed out a year ago. Not surprisingly, when the share prices of basic industrial companies took off, they pushed the Dow up 26% over the 18-month period ended June 30.

Will the cyclicals—stocks like General Motors, Goodyear and International Paper—continue to outpace the broader market? Or will the leadership now shift? A study of previous recoveries suggests that the cyclicals probably have had their run.

Why? Try a simple empirical exercise. Imagine a portfolio created by investing equal dollar amounts in the cyclical stocks within the Dow. The table looks at the portfolio's performance during bust-to-boom cycles since 1950.

Notice that, without fail, the cyclicals appreciated during the early stages of the economic upturns—just as they have done this time.

What I find especially striking in studying these figures is the inability of the cyclicals to hold on to their gains beyond the initial recovery year, 1970 being the notable exception. In fact, during five of the last seven recoveries, the portfolio declined by an average of 19% in the second year following the nadir of the business cycle. So when it comes to cyclicals, it's not enough to know when to hold 'em. You've got to know when to fold 'em, too.

What's my advice? I would err on the side of a defensive strategy. As I discussed in my May 11 FORBES column, at the end of March the relationship between interest rates and equity markets strongly suggested that cash equivalents—even at their current low rates of return—will beat the S&P for the April-September investment term. At the halfway mark, the S&P's track is akin to that witnessed after previous cash signals. So expect the overall market to languish over the balance of the summer. I would maintain a hefty cash position—something on the order of 50%. Yes, I know. It hurts to let money sit in T bills paying 3%. But any positive is better than a negative figure.

As for the other half of the portfolio, I would invest in defensive issues. While these stocks are not immune to market downturns, I would prefer to ride out any turbulence with sectors like: household products, *Procter & Gamble* (49); life insurance, *Torchmark* (69); foods, *Kellogg* (64); utilities, *Pacific Gas & Electric* (33); and personal loan companies, *Beneficial Corp.* (63).

Cyclical stocks: Buy now?

Economic trough	Cyclical stock performance[1] First year after trough[2]	Second year after trough[2]
Mar 1991 (assumed)	27.8%	NA
Nov 1982	29.0	-21.7%
July 1980	5.6	-21.5
Mar 1975	38.4	-11.7
Nov 1970	2.3	28.2
Feb 1961	4.9	-12.7
Apr 1958	44.1	-28.2
May 1954	88.7	9.8
Average	30.1	-8.3

[1]Portfolio of equal-dollar investments in Alcan, Bethlehem Steel, Caterpillar, Du Pont, GM, Goodyear, International Paper and Union Carbide. [2]Fiscal-year portfolio returns, excluding dividends. NA: Not available.

Thus far into the economic recovery, share prices of basic industrial companies are tracking the historical path—up, and up a lot. But, if history is any guide, investors should be wary. During five of the last seven cycles, these same stocks declined an average of 19% in the second year following economic troughs.